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# News Release

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## DRAFT AMENDMENTS RELATING TO RETIREMENT SAVINGS

Finance Minister Paul Martin today released draft amendments to the *Income Tax Regulations* relating to retirement savings measures announced in the March 6, 1996 federal budget.

Most notably, the draft amendments:

- reduce, from 71 to 69, the age at which an individual's pension must begin under a registered pension plan (RPP);
- defer until 2005 the indexing of the \$1,722.22 RPP defined benefit limit;
- eliminate until 2005 up to \$1,000 of new RRSP deduction room that might otherwise become available each year to high-income earners participating in foreign pension plans and various unregistered Canadian pension arrangements; and
- incorporate the draft amendments issued in Finance Canada release 95-058 (dated July 20, 1995).

Mr. Martin noted that several of the provisions relating to the elimination of the \$1,000 of RRSP room impact on the determination of an individual's pension adjustment for 1996, which employers must report by the end of February 1997.

The draft amendments, together with explanatory notes, are attached to this release. Mr. Martin noted that amendments to the *Income Tax Act* implementing the other 1996 budget measures relating to retirement savings were included with the Notice of Ways and Means Motion tabled in the House of Commons on December 5, 1996.

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## **DRAFT AMENDMENTS RELATING TO RETIREMENT SAVINGS**

### **1. Subsection 4900(3) of the Income Tax Regulations is replaced by the following:**

(3) For the purpose of paragraph (i) of the definition "qualified investment" in section 204 of the Act, a contract with a licensed annuities provider (within the meaning assigned by subsection 147(1) of the Act) for an annuity payable to an employee who is a beneficiary under a deferred profit sharing plan beginning not later than the end of the year in which the employee attains 69 years of age, the guaranteed term of which, if any, does not exceed 15 years, is a qualified investment for a trust governed by such a plan or revoked plan.

### **2. The portion of subsection 8303(2) of the Regulations before paragraph (a) is replaced by the following:**

(2) For the purposes of this Part, the accumulated PSPA of an individual for a calendar year with respect to an employer, determined as of any time, is the total of all amounts each of which is the individual's provisional past service pension adjustment (in this Part referred to as "provisional PSPA") with respect to the employer that is associated with

### **3. The portion of subsection 8307(5) of the Regulations before paragraph (a) is replaced by the following:**

(5) For the purposes of the description of C in paragraph (2)(b) and the description of G in the definition "net past service pension adjustment" in subsection 146(1) of the Act, the amount of an individual's PSPA withdrawals for a calendar year, determined as of a particular time, is

### **4. The portion of paragraph 8308.1(2)(b) of the Regulations after subparagraph (iv) is replaced by the following:**

the lesser of

(v) the amount, if any, by which

(A) 18% of the amount that would be the individual's compensation from the employer for the year if the definition "compensation" in subsection 147.1(1) of the Act were read without reference to paragraphs (b) and (c) of that definition

exceeds

(B) \$1,000, and

(vi) the money purchase limit for the year.

**5. Paragraph 8308.2(d) of the Regulations is replaced by the following:**

(d) the money purchase limit for the year, and

**6.(1) Paragraph 8308.3(1)(c) of the Regulations is replaced by the following:**

(c) a plan or arrangement that does not provide, in any circumstances, for payments to be made to or for the benefit of the individual after the later of the day on which the individual attains 69 years of age and the day that is 5 years after the day of termination of the individual's employment with the employer, or

**(2) The portion of paragraph 8308.3(2)(b) of the French version of the Regulations before subparagraph (i) is replaced by the following:**

b) dans le cas où les conditions suivantes sont réunies, le montant qui serait déterminé selon la formule figurant au sous-alinéa (v) si la fraction « 0,85 » était remplacée par « 1 » et si la somme de 15 500 \$ figurant à la division (B) de l'élément A de cette formule était remplacée par 14 500 \$ :

**(3) Clause (B) of the description of A in subparagraph 8308.3(2)(b)(v) of the Regulations is replaced by the following:**

(B) \$15,500, and

**(4) The portion of paragraph 8308.3(2)(b) of the English version of the Regulations after subparagraph (v) is replaced by the following:**

the amount that would be determined by the formula in subparagraph (v) if

(vi) the reference to "0.85" in the formula were replaced by a reference to "1", and

(vii) the reference to "\$15,500" in clause (B) of the description of A in that subparagraph were replaced by a reference to "\$14,500".

**7. The portion of subsection 8308.4(2) of the Regulations after paragraph (b) is replaced by the following:**

the RRSP dollar limit for the following year is prescribed in respect of the individual for that following year for the purposes of the descriptions of B in the definitions "RRSP deduction limit" and "unused RRSP deduction room" in subsection 146(1) of the Act and the description of B in paragraph 204.2(1.1)(b) of the Act.

**8. Section 8309 of the Regulations is replaced by the following:**

**8309.**(1) Where an individual is, at any time in a particular calendar year, a lieutenant governor of a province (other than a lieutenant governor who is not a contributor within the meaning assigned by section 2 of the *Lieutenant Governors Superannuation Act*), there is prescribed in respect of the individual for the following year for the purposes of the descriptions of B in the definitions "RRSP deduction limit" and "unused RRSP deduction room" in subsection 146(1) of the Act and the description of B in paragraph 204.2(1.1)(b) of the Act the lesser of

(a) the amount, if any, by which 18% of the salary received by the individual for the particular year as a lieutenant governor exceeds \$1,000, and

(b) the money purchase limit for the particular year.

(2) Where an individual is, at any time in a particular calendar year, a judge in receipt of a salary under the *Judges Act*, there is prescribed in respect of the individual for the following year for the purposes of the descriptions of B in the definitions "RRSP deduction limit" and "unused RRSP deduction room" in subsection 146(1) of the Act and the description of B in paragraph 204.2(1.1)(b) of the Act the lesser of

(a) the amount, if any, by which 18% of the salary (other than salary that was not received under the *Judges Act*) received by the individual for the particular year as a judge exceeds \$1,000, and

(b) the money purchase limit for the particular year.

**9. The definition "defined benefit limit" in subsection 8500(1) of the Regulations is replaced by the following:**

"defined benefit limit" for a calendar year means the greater of

(a) \$1,722.22, and

(b) 1/9 of the money purchase limit for the year; (*plafond des prestations déterminées*)

**10. Clause 8502(e)(i)(A) of the Regulations is replaced by the following:**

(A) the end of the calendar year in which the member attains 69 years of age, or

**11. Clause 8503(2)(f)(iii)(B) of the Regulations is replaced by the following:**

(B) the end of the calendar year in which the beneficiary attains 69 years of age

**12. Subparagraph 8506(1)(e)(iii) of the Regulations is replaced by the following:**

(iii) the retirement benefits are payable to the beneficiary beginning no later than on the later of one year after the day of death of the member and the end of the calendar year in which the beneficiary attains 69 years of age;

**13. Section 8509 of the Regulations is amended by adding the following after subsection (11):**

**PA Limits -- 1996 to 2003**

(12) Neither subsection 147.1(8) nor (9) of the Act applies to render a registered pension plan a revocable plan at the end of any calendar year after 1995 and before 2004 because a pension adjustment, a total of pension adjustments or a total of pension credits of an individual for the year (each of which is, in this subsection, referred to as a "test amount") is excessive where the subsection would not apply to render the plan a revocable plan at the end of the year if each test amount were decreased by the lesser of

(a) the amount, if any, by which the lesser of

(i) the total of all amounts each of which is a pension credit under a benefit provision of a registered pension plan that was included in determining the test amount, and

(ii) \$15,500

exceeds the money purchase limit for the year, and

(b) the total of all amounts each of which is a pension credit under a defined benefit provision of a registered pension plan (other than a plan that is, in the year, a specified multi-employer plan) that was included in determining the test amount.

#### Maximum Benefits Indexed Before 2005

(13) Where

(a) a pension plan is a grandfathered plan or would be a grandfathered plan if the references to "March 27, 1988" in the definitions "existing plan" and "grandfathered plan" in subsection 8500(1) were read as references to "March 5, 1996" and the references to "March 28, 1988" in the definition "existing plan" in that subsection were read as references to "March 6, 1996",

(b) under the terms of the plan as they read immediately before March 6, 1996, the plan provided for benefits that are benefits to which a condition in any of subsections 8504(1), (5) and (6) and paragraph 8505(3)(d) applies and, at that time, the benefits complied with the condition, and

(c) as a consequence of the change in the defined benefit limit effective March 6, 1996, the benefits would, if this Part were read without reference to this subsection, cease to comply with the condition,

the following rules apply:

(d) for the purpose of determining at any time after March 5, 1996 and before 1998 whether the benefits comply with the condition, the defined benefit limit for each year after 1995 is deemed to be the amount that it would be if the definition "money purchase limit" in subsection 147.1(1) of the Act were applied as it read on December 31, 1995; and

(e) for the purpose of determining at any time after 1997 whether the benefits comply with the condition, the defined benefit limit for 1996 and 1997 is deemed to be the amount that it would be if it were determined in accordance with paragraph (d).

#### **14.(1) Subsection 8516(1) of the Regulations is replaced by the following:**

**8516.(1)** For the purposes of subsection 147.2(2) of the Act, a contribution described in any of subsections (2) to (9) that is made by an employer to a registered pension plan in respect of the defined benefit provisions of the plan is a prescribed contribution.

(2) Section 8516 of the Regulations is amended by adding the following after subsection (8):

Actuarial Reports Signed Before March 6, 1996

(9) A contribution that is made by an employer to a registered pension plan is described in this subsection if

(a) the actuarial report containing the recommendation pursuant to which the contribution is made was signed before March 6, 1996;

(b) the contribution is made after March 5, 1996;

(c) the contribution would be an eligible contribution under subsection 147.2(2) of the Act if

(i) no contributions were prescribed for the purposes of that subsection, and

(ii) for the purpose of determining whether the actuarial valuation on which the recommendation is based complies with the condition in subparagraph (a)(iii) of that subsection, the defined benefit limit for each year after 1995 were equal to the amount that it would be if the definition "money purchase limit" in subsection 147.1(1) of the Act applied as it read on December 31, 1995; and

(d) where the contribution is made after 1996, the plan is not a designated plan under section 8515 at the time it is made.

15. The table to subsection 8517(1) of the Regulations is replaced by the following:

Attained Age	Present Value Factor	Attained Age	Present Value Factor
Under 50	9.0	73	9.8
50	9.4	74	9.4
51	9.6	75	9.1
52	9.8	76	8.7
53	10.0	77	8.4
54	10.2	78	8.0
55	10.4	79	7.7
56	10.6	80	7.3
57	10.8	81	7.0
58	11.0	82	6.7
59	11.3	83	6.4
60	11.5	84	6.1
61	11.7	85	5.8
62	12.0	86	5.5
63	12.2	87	5.2
64	12.4	88	4.9
65	12.4	89	4.7
66	12.0	90	4.4
67	11.7	91	4.2
68	11.3	92	3.9
69	11.0	93	3.7
70	10.6	94	3.5
71	10.3	95	3.2
72	10.1	96 or over	3.0

16.(1) Section 1 applies to annuity contracts acquired after 1996, except that

(a) it does not apply to a contract where the annuitant attained 70 years of age before 1997; and

(b) in applying subsection 4900(3) of the Regulations, as enacted by subsection (1), to a contract where the annuitant attained 69 years of age in 1996, the reference in that subsection to "69 years of age" shall be read as "70 years of age".

(2) Sections 2 and 3, subsection 8509(12) of the Regulations, as enacted by section 13, and section 14 apply after 1995.

(3) Section 4 applies to the determination of pension credits for calendar years after 1995 and before 2004, except that, for the purpose of subparagraph 6804(6)(c)(ii) of the Regulations, it does not apply for 1996.

(4) Sections 5, 7 and 8 apply to the determination of prescribed amounts for calendar years after 1996 and before 2005.

(5) Subsection 6(1) applies after 1997, except that it does not apply in respect of an individual who attained 69 years of age before 1998.

(6) Subsections 6(2) and (4) apply to the determination of pension credits for calendar years after 1995 and before 2003.

(7) Subsection 6(3) applies to the determination of pension credits for calendar years after 1995 and before 2004.

(8) Section 9 applies after 1995, except that paragraph (b) of the definition "defined benefit limit" in subsection 8500(1) of the Regulations, as enacted by section 9, applies

(a) before March 6, 1996 as though the money purchase limit for each year after 1995 were the amount that it would be if the definition "money purchase limit" in subsection 147.1(1) of the Income Tax Act applied as it read on December 31, 1995; and

(b) after March 5, 1996 and before 1997 as though the money purchase limit for each year after 1995 were the amount that it would be if the definition "money purchase limit" in subsection 147.1(1) of the Act applied as it read on January 1, 1997.

(9) Sections 10 to 12 apply after 1996, except that

(a) subject to paragraph (b), clauses 8502(e)(i)(A) and 8503(2)(f)(iii)(B) and subparagraph 8506(1)(e)(iii) of the Regulations, as enacted by sections 10, 11 and 12 respectively, apply in respect of benefits provided to an individual who attained 70 years of age before 1997 or 69 years of age in 1996 as though the references in those provisions to "69 years of age" were references to "71 years of age" and "70 years of age" respectively; and

(b) where retirement benefits under a pension plan are provided to an individual by means of an annuity contract issued before March 6, 1996 and, under the terms and conditions of the contract as they read immediately before that day,

**(i) the day on which annuity payments are to begin under the contract is fixed and determined and is after the year in which the individual attains**

**(A) 69 years of age, where the individual had not attained that age before 1997, or**

**(B) 70 years of age, where the individual attained 69 years of age in 1996, and**

**(ii) the amount and timing of each annuity payment are fixed and determined,**

**clauses 8502(e)(i)(A) and 8503(2)(f)(iii)(B) and subparagraph 8506(1)(e)(iii) of the Regulations, as enacted by sections 10, 11 and 12 respectively, apply in respect of the benefits as though the references in those provisions to "69 years of age" were references to "71 years of age".**

**(10) Subsection 8509(13) of the Regulations, as enacted by section 13, applies after March 5, 1996, except that**

**(a) where the retirement benefits provided to an individual under a pension plan are provided by means of an annuity contract issued before March 6, 1996, and**

**(b) under the terms and conditions of the contract as they read immediately before March 6, 1996,**

**(i) the day on which annuity payments are to begin under the contract is fixed and determined and is after 1997, and**

**(ii) the amount and timing of each annuity payment are fixed and determined,**

**that subsection shall, in its application to those benefits, be read without reference to the words "and before 1998" in paragraph (d) of that subsection and without reference to paragraph (e) of that subsection.**

**(11) Section 15 applies to transfers after 1995.**



**EXPLANATORY NOTES TO DRAFT AMENDMENTS  
RELATING TO RETIREMENT SAVINGS**

**Clause 1**

ITR

4900(3)

Subsection 4900(3) of the Income Tax Regulations provides that a contract for an annuity purchased from a licensed issuer of annuities is a qualified investment for a trust governed by a deferred profit sharing plan (DPSP) or a revoked plan if certain conditions are satisfied. One of the conditions is that the contract must provide for payment of the annuity to commence no later than the annuitant's 71st birthday.

This condition is amended to require that the contract provide for payment of the annuity to commence by the end of the year in which the annuitant turns 69 years of age (70 years of age if the annuitant turns 69 years of age in 1996).

This amendment applies to annuity contracts acquired after 1996 where, at the end of 1996, the annuitant was less than 70 years of age.

**Clause 2**

ITR

8303(2)

Subsection 8303(2) of the Regulations defines the accumulated PSPA of an individual for a year. The definition applies, in part, for the purpose of computing an individual's net past service pension adjustment (net PSPA) under former subsection 204.2(1.3) of the Act.

Subsection 8303(2) is amended to remove the reference to subsection 204.2(1.3). This amendment, which applies after 1995, is strictly consequential to amendments to subsection 204.2(1.3) relating to measures announced in the 1995 federal budget.

**Clause 3**

ITR

8307(5)

Subsection 8307(5) of the Regulations defines the amount of an individual's PSPA withdrawals for a year. The definition applies, in part, for the purpose of computing an individual's net PSPA under former subsection 204.2(1.3) of the Act.

Subsection 8307(5) is amended to remove the reference to subsection 204.2(1.3). This amendment, which applies after 1995, is strictly consequential to amendments to subsection 204.2(1.3) relating to measures announced in the 1995 federal budget.

#### **Clause 4**

ITR

##### **8308.1(2)(b)**

Subsection 8308.1(2) of the Regulations contains rules for calculating a pension credit of an individual under a foreign plan. The pension credit for a year is equal to the lesser of the money purchase limit for the year minus \$1,000, and 18% of the individual's compensation for the year minus \$1,000.

Subsection 8308.1(2) is amended so that, for years after 1995 and before 2004, the pension credit is determined without subtracting \$1,000 from the money purchase limit. As a result, high-income earners who participate in foreign plans will lose all or part of the RRSP room that would otherwise have become available to them each year through 2004 by virtue of the \$1,000 offset.

This amendment does not apply in determining pension credits for 1996 for the purpose of subparagraph 6804(6)(c)(ii) of the Regulations. This is to ensure that, where a non-profit employer contributed in 1996 to a registered pension plan (RPP) in respect of a high-income employee assuming that the employee's foreign plan pension credit under subsection 8308.1(2) would be the money purchase limit minus \$1,000, the contribution does not result in contributions to the foreign plan in respect of the employee becoming subject to the retirement compensation arrangement (RCA) tax.

#### **Clause 5**

ITR

##### **8308.2(d)**

Section 8308.2 of the Regulations prescribes a reduction in the RRSP limit of certain Canadian residents who participate in foreign plans. The prescribed amount for a year is equal to the lesser of the money purchase limit for the previous year minus \$1,000, and 10% of the individual's compensation for the previous year.

Paragraph 8308.2(d) is amended so that, for years after 1996 and before 2005, the prescribed amount is determined without subtracting \$1,000 from the money purchase limit for the previous year. As a result, high-income earners who participate in foreign plans will lose all or part of the RRSP deduction room that would otherwise have become available to them each year through 2004 by virtue of the \$1,000 offset.

**Clause 6**

ITR

8308.3

Section 8308.3 of the Regulations contains rules for calculating pension credits in respect of certain unregistered retirement plans, referred to as "specified retirement arrangements" (SRAs), maintained by tax-exempt employers.

**Subclause 6(1)**

ITR

8308.3(1)(c)

Subsection 8308.3(1) of the Regulations defines an SRA in respect of an individual to exclude a plan or arrangement under which all payments will be made to the individual by the individual's 71st birthday or, if later, five years after the individual terminates employment with the employer.

Paragraph 8308.3(1)(c) is amended so that the exclusion applies with respect to a plan or arrangement only if all payments under the plan or arrangement are to be made by the individual's 69th birthday (rather than the individual's 71st birthday).

This amendment applies after 1997 in respect of individuals who, at the end of 1997, were less than 69 years of age.

**Subclauses 6(2) to (4)**

ITR

8308.3(2)

Subsection 8308.3(2) of the Regulations contains rules for calculating pension credits in respect of individuals who accrue benefits under an SRA. This subsection gives rise to a pension credit only where the SRA is not supplemental to a registered pension plan (RPP) that provides benefits at, or close to, the maximum permissible level. The effect of the pension credit is that, for the year following the year in which the SRA benefits accrue, the individual has no more than \$1,000 of new RRSP deduction room.

Subsection 8308.3(2) is amended to ensure that, for those years in which the money purchase limit is less than \$15,500, the determination of the extent to which basic benefits are provided under an RPP is based on \$15,500 (which is the money purchase equivalent of the \$1,722.22 defined benefit limit) rather than the money purchase limit for the year. This amendment is consequential on the reduction of the money purchase limit to less than \$15,500 for years after 1995 and before 2004.

Subsection 8308.3(2) is also amended so that high-income earners who accrue benefits under an SRA lose all or part of the \$1,000 of RRSP deduction room that would otherwise have become available to them each year through 2004.

**Clause 7**

ITR

8308.4(2)

Subsection 8308.4(2) of the Regulations prescribes a reduction in the RRSP limit of individuals who accrue benefits under "government-sponsored retirement arrangements" (GSRAs). The prescribed amount in respect of an individual for a year is equal to the RRSP dollar limit for that year minus \$1,000.

Subsection 8308.4(2) is amended so that, for years after 1996 and before 2005, the prescribed amount is determined without subtracting \$1,000 from the RRSP dollar limit. As a result, high-income earners who participate in GSRAs will lose all of the RRSP deduction room that might otherwise have become available to them each year through 2004 by virtue of the \$1,000 offset.

**Clause 8**

ITR

8309(1)

Subsection 8309(1) of the Regulations prescribes a reduction in the RRSP limit of a province's lieutenant governor. The prescribed amount for a year is equal to the lesser of the money purchase limit for the previous year minus \$1,000, and 18% of the lieutenant governor's salary for the previous year minus \$1,000.

Subsection 8309(1) is amended so that, for years after 1996 and before 2005, the prescribed amount is determined without subtracting \$1,000 from the money purchase limit. As a result, lieutenant governors will generally lose all or part of the RRSP deduction room that would otherwise have become available to them each year through 2004 by virtue of the \$1,000 offset.

ITR

8309(2)

Subsection 8309(2) of the Regulations prescribes a reduction in the RRSP limit of a judge in receipt of salary under the *Judges Act*. The prescribed amount for a year is equal to lesser of the money purchase limit for the previous year minus \$1,000, and 18% of the judge's salary for the previous year minus \$1,000.

Subsection 8309(2) is amended so that, for years after 1996 and before 2005, the prescribed amount is determined without subtracting \$1,000 from the money purchase limit. As a result, these judges will generally lose all or part of the RRSP deduction room that would otherwise have become available to them each year through 2004 by virtue of the \$1,000 offset.

## Clause 9

### ITR

#### 8500(1)

#### "defined benefit limit"

Subsection 8500(1) of the Regulations defines "defined benefit limit" for a year, which is relevant for the limits in section 8504 on the retirement benefits that may be paid under a defined benefit provision of a registered pension plan (RPP) in the year in which the benefits commence to be paid. (The benefits can be adjusted in subsequent years to reflect increases in the Consumer Price Index.) The defined benefit limit is currently \$1,722.22 for years before 1996 and 1/9th of the "money purchase limit" (as defined in subsection 147.1(1) of the Act) thereafter.

The "defined benefit limit" definition is amended so that the limit for a year is the greater of \$1,722.22 and 1/9th of the money purchase limit for that year. Thus, since \$1,722.22 is 1/9th of \$15,500, the defined benefit limit remains frozen until such time as the money purchase limit exceeds \$15,500.

The change to the definition "defined benefit limit" is effective as of January 1, 1996, with some qualifications. To understand the significance of these qualifications, it is important to note the changes to the "money purchase limit" definition announced in the 1995 and 1996 federal budgets.

- Prior to the 1995 budget, the money purchase limit for 1996 and subsequent years was defined to be \$15,500 adjusted to reflect increases in the average wage.
- The 1995 budget announced that the money purchase limit would be reduced to \$13,500, \$14,500 and \$15,500 for 1996, 1997 and 1998 respectively. Starting in 1999, the \$15,500 limit would be indexed for increases in the average wage. These changes took effect January 1, 1996.
- The 1996 budget announced that the money purchase limit would be frozen at the 1996 level of \$13,500 until 2002. For 2003 and 2004, it would be increased to \$14,500 and \$15,500 respectively. Thereafter, it would be indexed to increases in the average wage. These changes took effect January 1, 1997.

The qualifications to the coming-into-force of the change to the "defined benefit limit" definition are as follows.

- The definition applies before March 6, 1996 as though the money purchase limit for 1996 and subsequent years were \$15,500 indexed, which means that the defined benefit limit is also considered to be indexed starting in 1996. This protects any commuted values paid, annuity contracts purchased and employer RPP contributions made after 1995 and before March 6, 1996 based on an assumption that the defined benefit limit would be indexed before 1999.

- The definition applies between March 6 and December 31, 1996 as though the money purchase limit would not be indexed until 2005. This ensures that the deferral to 2005 of the indexing of the defined benefit limit applies as of March 6, 1996.

Reference should also be made to new subsections 8509(13) and 8516(9) of the Regulations which contain grandfathering provisions for certain RPP benefits and contributions based on indexing of the defined benefit limit before 2005.

## **Clause 10**

### **ITR**

#### **8502(e)**

Section 8502 of the Regulations lists conditions that apply for the registration of a pension plan. Paragraph 8502(e) requires an RPP to provide that retirement benefits will commence to be paid to each member no later than the end of the year in which the member turns 71 years of age.

Paragraph 8502(e) is amended to require an RPP to provide that retirement benefits will commence to be paid to each member no later than the end of the year in which the member turns 69 years of age.

This amendment to paragraph 8502(e) applies after 1996, with the following qualifications.

- It does not apply to members who turned 69 before 1996 and, for those who turned 69 in 1996, it is amended to require only that benefits commence by the end of 1997.
- It does not apply to retirement benefits that are provided by means of an annuity contract issued before March 6, 1996, if the annuity contract, as it read on March 5, 1996, satisfied certain conditions. First, the contract must have provided for payment of the annuity to commence on a specific date and the date must be after the year in which the member turns 69 (70 if the member turned 69 in 1996). Second, the contract must have established the amount and timing of each annuity payment.

As a result of the change, no new pension plans can be registered after 1996, unless the terms of the plan comply with amended paragraph 8502(e). Any existing RPPs that do not comply as of January 1, 1997 with the new age limit become revocable by virtue of paragraph 147.1(11)(a) of the Act.

**Clause 11**

ITR

8503(2)(f)

Paragraph 8503(2)(f) of the Regulations permits an RPP to provide pre-retirement survivor benefits under a defined benefit provision of the plan to a beneficiary who is a spouse or former spouse of the member. Generally, the benefits must commence to be paid by the end of the year in which the beneficiary turns 71 years of age.

Paragraph 8503(2)(f) is amended in the same manner, and with the same qualifications, as paragraph 8502(e).

**Clause 12**

ITR

8506(1)(e)

Paragraph 8506(1)(e) of the Regulations permits an RPP to provide pre-retirement survivor benefits under a money purchase provision of the plan to a beneficiary who is a spouse or former spouse of the member. Generally, the benefits must commence to be paid by the end of the year in which the beneficiary turns 71 years of age.

Paragraph 8506(1)(e) is amended in the same manner, and with the same qualifications, as paragraph 8502(e).

**Clause 13**

ITR

8509(12)

New subsection 8509(12) of the Regulations contains rules that restrict the application of subsections 147.1(8) and (9) of the Act. Those subsections provide that an RPP becomes revocable if a member's pension adjustment (PA), total PAs or total pension credits (referred to in subsection 8509(12) as a "test amount") exceed certain limits. One of the limits is the money purchase limit for the year.

Subsection 8509(12) provides, in effect, for a portion of a test amount to be disregarded for purposes of applying the limits in subsections 147.1(8) and (9) in any calendar year after 1995 and before 2004. The disregarded amount is equal to the lesser of:

- the total RPP pension credits included in the test amount (or \$15,500, if less) minus the money purchase limit for the year, and

- the total defined benefit pension credits (other than under a specified multi-employer plan) included in the test amount.

Subsection 8509(12) applies after 1995 and is consequential on the reduction of the money purchase limit to less than \$15,500 for years from 1996 to 2003. The disregarded amount under that subsection ensures that a defined benefit RPP providing maximum benefits to higher-income members does not become revocable only because of the fact that PAs are greater than the money purchase limit (so long as they do not exceed \$15,500).

### **EXAMPLE 1**

*An individual participates in a defined benefit RPP with a 2% benefit accrual rate. The plan is a single-employer plan. The individual's pensionable earnings for 1996 are \$85,000.*

*Results:*

- 1. The individual's pension credit and PA for 1996 are \$14,300 ( $= (2\% \times \$85,000 \times 9) - \$1,000$ ).*
- 2. Under subsection 8509(12), the individual's PA for 1996 is reduced, for purposes of subsection 147.1(8), by \$800 which is the lesser of:*
  - the RPP pension credits included in PA (\$14,300) less the money purchase limit for the year (\$13,500), and*
  - the defined benefit pension credits included in PA (\$14,300).*

*As a result of this reduction, the fact that the individual's actual PA for 1996 exceeds the money purchase limit does not cause the plan to become revocable.*

### **EXAMPLE 2**

*An individual participates in a money purchase RPP with a 2% defined benefit top-up. The plan is a single-employer plan. The individual's money purchase and defined benefit pension credits for 1996 are \$13,500 and \$1,000 respectively.*

*Results:*

- 1. The individual's 1996 PA is \$14,500.*
- 2. Under subsection 8509(12), the individual's PA for 1996 is reduced, for purposes of subsection 147.1(8), by \$1,000 which is the lesser of:*
  - the RPP pension credits included in PA (\$14,500) less the money purchase limit for the year (\$13,500), and*
  - the defined benefit pension credits included in PA (\$1,000).*

*As a result of this reduction, the fact that the individual's actual PA for 1996 exceeds the money purchase limit does not cause the plan to become revocable.*

*However, if the money purchase pension credit had been greater than \$13,500, the disregarded amount of PA would still have been \$1,000 and the plan would have become revocable.*

## ITR

### 8509(13)

New subsection 8509(13) of the Regulations contains a transitional rule with respect to the maximum pension limits in subsections 8504(1), (5) and (6) and paragraph 8505(3)(d) of the Regulations, each of which is dependent on the defined benefit limit for the year in which an individual's retirement benefits commence to be paid.

In general terms, subsection 8509(13) applies with respect to RPPs submitted for registration before March 6, 1996 which explicitly provide for the maximum limits on retirement benefits to be indexed before 2005 (rather than limiting benefits simply by making reference to the maximum pension limits set out in the Regulations). The effect of subsection 8509(13) is to provide such plans until January 1, 1998 to be amended to comply with the revised maximum pension limits (instead of March 6, 1996).

The subsection also provides that, in determining at any time after 1997 whether pensions that have commenced to be paid under such plans in 1996 or 1997 satisfy the maximum pension limits, the defined benefit limit is deemed to be what it would have been had indexing started in 1996. This is relevant since the limits on benefits payable in years following the year of pension commencement are based on the defined benefit limit for the year of commencement adjusted for subsequent increases in the Consumer Price Index.

Finally, subsection 8509(13) provides similar protection where an individual's benefits under such a plan are provided by means of an annuity contract that was acquired by the plan before March 6, 1996 and under which payments are not scheduled to commence until after 1997. Where the contract established the commencement date and the amount and timing of each annuity payment before March 6, 1996, subsection 8509(13) provides that, in determining at any time thereafter whether the annuity benefits satisfy the maximum pension limits, the defined benefit limit is deemed to be what it would have been had indexing started in 1996.

**Subclause 14(1)**

ITR

**8516(1)**

Subsection 147.2(2) of the Act provides that prescribed contributions made by an employer in respect of the defined benefit provisions of an RPP are eligible contributions. Subsection 8516(1) of the Regulations prescribes for this purpose contributions described in subsection 8516(2) to (8). Subsection 8516(1) is amended also to prescribe contributions described in new subsection 8516(9).

**Subclause 14(2)**

ITR

**8516(9)**

New subsection 8516(9) of the Regulations permits contributions that would have been eligible contributions under subsection 147.2(2) of the Act had indexing of the defined benefit limit not been deferred to 2005. An RPP contribution made by an employer after March 5, 1996 (and before 1997 if the plan is a designated plan) is an eligible contribution pursuant to this subsection if

- the actuarial report containing the recommendation pursuant to which the contribution is made was signed before March 6, 1996, and
- the contribution would be an eligible contribution if, in determining whether the valuation satisfies the condition in subparagraph 147.2(2)(a)(iii) that it be based on assumptions that are reasonable at the time the valuation is prepared and at the time the contribution is made, it is assumed that the defined benefit limit is indexed to the average wage beginning in 1996.

This subsection is intended to ensure that most actuarial reports that were signed before March 6, 1996 do not have to be redone to reflect the deferral in indexing of the defined benefit limit.

**Clause 15**

ITR

**8517(1)**

Subsection 147.3(4) of the Act permits the tax-free transfer on behalf of an individual of a single amount from a defined benefit RPP to an RRSP, RRIF or money purchase RPP, subject to a limit determined in accordance with section 8517 of the Regulations. In general terms, this limit is equal to the lifetime retirement benefits foregone as a result of the transfer multiplied by the present value factor set out in the table to subsection 8517(1) of the Regulations that corresponds to the individual's age at the time of the transfer. For individuals aged 72 and over, the present value factor is nil.

Subsection 8517(1) is amended to replace the present value factor of nil for individuals aged 72 and over with the following amounts:

Attained Age	Present Value Factor	Attained Age	Present Value Factor
72	10.1	85	5.8
73	9.8	86	5.5
74	9.4	87	5.2
75	9.1	88	4.9
76	8.7	89	4.7
77	8.4	90	4.4
78	8.0	91	4.2
79	7.7	92	3.9
80	7.3	93	3.7
81	7.0	94	3.5
82	6.7	95	3.2
83	6.4	96 and over	3.0
84	6.1		

As a result, transferring a single amount from a defined benefit RPP on behalf of an individual who is older than 71 years of age is no longer prohibited. It should be noted, however, that the registration rules for RRSPs and money purchase RPPs would prohibit the amount being transferred to such a plan. Therefore, the only option would be to transfer it to a RRIF.

The amendment to subsection 8517(1) applies to transfers made after 1995.

